

# **EXHIBIT O - III**

## EXHIBIT D



**CITY OF DETROIT  
SEWAGE DISPOSAL FUND**

Basic Financial Statements  
and Required Supplementary Information

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

CITY OF DETROIT  
SEWAGE DISPOSAL FUND

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### Independent Auditors' Report

The Board of Water Commissioners,  
the Honorable Mayor, and  
Members of the City Council  
City of Detroit, Michigan:

We have audited the accompanying basic financial statements of the Sewage Disposal Fund (the Fund), an Enterprise fund of the City of Detroit, Michigan (the City), as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting of the Fund. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements referred to above present only the Sewage Disposal Fund of the City of Detroit, Michigan and are not intended to present fairly the financial position of the City of Detroit, Michigan as of June 30, 2005 and 2004, and the changes in its financial position, and, where applicable, cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewage Disposal Fund of the City of Detroit, Michigan as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2006 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over



financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Fund has not presented Management's Discussion and Analysis, which U.S. generally accepted accounting principles have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The schedule of funding progress on page 25 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 31, 2006



**CITY OF DETROIT  
SEWAGE DISPOSAL FUND**

Statements of Net Assets

June 30, 2005 and 2004

Assets	2005	2004
Current assets:		
Investments	\$ 47,948,538	40,242,687
Due from other funds	66,388,078	40,413,894
Accounts receivable (including \$41,695,332 and \$45,030,242 for unbilled sewage services and net of allowance for doubtful accounts of \$64,482,340 and \$42,901,655 for June 30, 2005 and 2004, respectively)	88,501,230	112,592,864
Rate adjustments receivable from customers	12,174,737	21,842,391
Prepaid expenses	381,847	5,880
Inventories	11,173,380	10,890,503
Restricted cash	12,289,108	31,905,215
Restricted investments	275,424,204	349,717,460
Restricted due from other funds	37,638,549	20,688,810
Total current assets	<u>551,919,671</u>	<u>628,299,704</u>
Noncurrent assets:		
Restricted long-term investments	308,770,507	261,766,757
Net pension asset	7,850,281	—
Noncurrent rate adjustments receivable from customers	44,946,430	13,430,669
Issuance costs — pension obligation certificates of participation	286,646	—
Unamortized bond issuance costs	35,433,200	31,105,792
Capital assets:		
Land	13,876,751	13,876,751
Structures	1,143,914,922	891,488,855
Interceptors, regulators, and improvements	542,769,689	532,455,750
Equipment	708,031,859	572,095,371
Construction work in progress	1,219,986,063	1,203,738,078
Total capital assets	3,628,579,284	3,213,654,805
Less accumulated depreciation	<u>(681,127,715)</u>	<u>(637,571,035)</u>
Net capital assets	<u>2,947,451,569</u>	<u>2,576,083,770</u>
Total noncurrent assets	<u>3,344,738,633</u>	<u>2,882,386,988</u>
Total assets	<u>\$ 3,896,658,304</u>	<u>3,510,686,692</u>

CITY OF DETROIT  
SEWAGE DISPOSAL FUND

Statements of Net Assets

June 30, 2005 and 2004

Liabilities and Net Assets	2005	2004
Current liabilities:		
Current liabilities payable from current assets:		
Book cash overdraft	\$ 758,762	134,189
Accounts and contracts payable	7,683,870	13,928,353
Due to other funds	53,133,721	34,675,106
Accrued salaries and wages	1,629,152	1,455,830
Rate adjustments payable to customers	4,938,657	4,048,127
Accrued workers' compensation	895,155	1,181,346
Accrued compensated absences	5,556,011	6,051,544
Other current accrued liabilities	754,691	360,864
Total current liabilities payable from current assets	75,350,019	61,835,359
Current liabilities payable from restricted assets:		
Revenue bonds and revolving loan payable within one year	50,035,000	44,825,000
Accrued bond interest payable	38,654,433	25,691,034
Other liabilities	89,017	—
Accounts and contracts payable	62,465,874	78,922,676
Due to other funds	11,074,002	5,207,146
Total current liabilities payable from restricted assets	162,318,326	154,645,856
Total current liabilities	237,668,345	216,481,215
Long-term liabilities:		
Revenue bonds and revolving loan payable	2,609,004,255	2,321,850,625
Pension obligation certificates of participation payable	8,760,811	—
Deferred swap termination fees	2,286,256	14,056,137
Rate adjustments payable to customers	7,054,465	5,329,657
Accrued workers' compensation	3,832,814	4,025,338
Accrued compensated absences	8,361,795	6,106,719
Total long-term liabilities	2,639,300,396	2,351,368,476
Total liabilities	2,876,968,741	2,567,849,691
Net assets:		
Invested in capital assets, net of related debt	646,808,681	610,829,187
Restricted for capital acquisitions and bond payments	166,369,102	130,303,233
Unrestricted	206,511,780	201,704,581
Total net assets	\$ 1,019,689,563	942,837,001

See accompanying notes to basic financial statements.



**CITY OF DETROIT  
SEWAGE DISPOSAL FUND**

Statements of Revenues, Expenses, and Changes in Fund Net Assets  
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
General customers	\$ 146,456,155	135,752,132
Suburban customers	158,120,913	170,810,298
City departments	281,062	998,336
Sewage surcharge	5,914,639	3,155,337
Miscellaneous	2,815,506	3,856,227
Total operating revenues, net	<u>313,588,275</u>	<u>314,572,330</u>
Operating expenses before depreciation:		
Sewage treatment plant	103,536,940	108,834,440
Interceptors and regulators	740,870	182,574
Sewer pumping stations	3,122,298	5,076,606
Sewer maintenance and engineering	12,348,658	15,566,222
Combined sewage overflow control basins	511,252	1,141,192
Commercial	5,698,629	6,321,194
Administrative and general	37,441,707	40,624,344
Total operating expenses before depreciation	<u>163,400,354</u>	<u>177,746,572</u>
Operating income before depreciation	150,187,921	136,825,758
Depreciation	<u>44,053,316</u>	<u>50,085,670</u>
Total operating income	<u>106,134,605</u>	<u>86,740,088</u>
Nonoperating revenues (expenses):		
Earnings on investments	14,930,952	8,017,586
Interest expense, net of capitalized interest	(44,205,957)	(59,629,554)
Miscellaneous	(7,038)	(4,699,023)
Total nonoperating expense	<u>(29,282,043)</u>	<u>(56,310,991)</u>
Increase in net assets	<u>76,852,562</u>	<u>30,429,097</u>
Net assets – beginning of year	942,837,001	912,407,904
Net assets – end of year	<u>\$ 1,019,689,563</u>	<u>942,837,001</u>

See accompanying notes to basic financial statements.

CITY OF DETROIT  
SEWAGE DISPOSAL FUND

## Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Receipts from customers	\$ 326,617,651	323,241,563
Internal activity – payments to other funds	(18,598,461)	(3,467,351)
Payments to suppliers	(124,774,098)	(109,592,661)
Payments to the General Retirement System in excess of annua required contributions	(7,850,281)	—
Payments to employees	(68,354,090)	(43,049,784)
Net cash provided by operating activities	107,040,721	167,131,767
Cash flows from noncapital and related financing activities:		
Proceeds from issuance of pension obligation certificates of participatio	8,760,811	—
Issuance costs – pension obligation certificates of participation	(286,646)	—
Bank overdraft	758,762	134,189
Net cash provided by noncapital and related activities	9,232,927	134,189
Cash flows from capital and related activities:		
Acquisition and construction of capital assets, net	(364,680,084)	(354,410,519)
Principal paid on revenue bond maturities and revolving loan	(32,590,000)	(38,745,000)
Interest paid on revenue bonds	(82,010,501)	(113,346,957)
Principal paid on refunded debt	(108,765,000)	(103,845,000)
Proceeds from bond issuance and increase in revolving note payable, ne	426,848,891	208,532,328
Swap termination fee	(11,750,000)	14,056,137
Other receipts	—	410,035
Unamortized discount and bond issuance cost	2,542,333	2,644,404
Net cash used in capital and related financing activities	(170,404,361)	(384,704,572)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	651,726,904	847,618,237
Purchase of investments	(632,143,250)	(651,726,904)
Interest received on investments	14,930,952	8,017,587
Net cash provided by investing activities	34,514,606	203,908,920
Net decrease in cash	(19,616,107)	(13,529,696)
Cash at beginning of year	31,905,215	45,434,911
Cash at end of year	\$ 12,289,108	\$ 31,905,215
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 106,134,605	86,740,088
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	44,053,316	50,085,670
Provision for uncollectible accounts	21,580,685	5,237,411
Changes in certain assets and liabilities:		
(Increase) decrease in accounts receivable	2,510,949	(10,074,723)
Increase in rate refund receivable from customers	(21,982,296)	(6,468,196)
(Increase) decrease in prepaid expenses	(375,967)	29,477,360
(Increase) decrease in inventories	(282,877)	3,365,569
Increase in net pension asset	(7,850,281)	—
Increase (decrease) in accounts and contracts payable	(22,701,285)	5,412,445
Increase in accrued salaries and wages	173,323	257,530
Increase in rate refund payable to customers	2,615,338	4,041,931
Increase in other accrued liabilities and accrued compensated absences and accrued workers' compensation	1,763,672	2,524,033
Net change in due (to) from other funds	(18,598,461)	(3,467,351)
Net cash provided by operating activities	\$ 107,040,721	167,131,767

See accompanying notes to basic financial statements.



**CITY OF DETROIT  
SEWAGE DISPOSAL FUND**

Basic Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

CITY OF DETROIT  
SEWAGE DISPOSAL FUND

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## Independent Auditors' Report

The Board of Water Commissioners,  
the Honorable Mayor Michael E. Duggan, and  
the Honorable Members of the City Council  
City of Detroit, Michigan:

We have audited the accompanying financial statements of the Sewer Fund (the Fund), an enterprise fund of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Fund as of June 30, 2014, and the changes in its financial position, and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.





*Emphasis of Matter*

*Emphasis of Matter Regarding Bankruptcy Filing*

As discussed in Note 17 to the financial statements, on July 18, 2013 the City filed a voluntary petition under Chapter 9 of the Bankruptcy Code. On November 12, 2014, the Bankruptcy Court entered an order confirming the City's Eighth Amended Plan of Adjustment ("Plan"). The Plan became effective in accordance with its terms on December 10, 2014, and the City exited bankruptcy. Our opinion is not modified with respect to this matter.

*Emphasis of Matter Regarding Adoption of New Accounting Pronouncement*

As discussed in Note 2 (q) to the financial statements, in 2014, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, beginning net position was restated as bond issuance costs, except any portion related to prepaid insurance costs, are now recognized as an expense in the period incurred. Bond issuance costs were previously reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt. Our opinion is not modified with respect to this matter.

*Emphasis of Matter Regarding Fund Financial Statements*

As discussed in note 1, the basic financial statements present only the Sewer Fund and do not purport to, and do not, present fairly the financial position of the City of Detroit, Michigan, as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Other Matters*

*Required Supplementary Information*

Management has omitted management's discussion and analysis, schedules of employer contributions, and schedules of funding progress that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG LLP

Detroit, Michigan  
May 29, 2015

CITY OF DETROIT  
SEWAGE DISPOSAL FUND

Statement of Fund Net Position

June 30, 2014

Current assets:	
Cash and cash equivalents	\$ 96,127,434
Investments	20,771,621
Accounts receivable:	
Billed accounts receivable	164,108,845
Unbilled accounts receivable	70,590,364
Other accounts receivable	6,422,001
Allowance for doubtful accounts	(108,044,238)
Total accounts receivable, net	133,076,972
Restricted:	
Cash and cash equivalents	152,554,687
Investments	19,487,688
Due from other funds	7,435,471
Due from fiduciary funds	1,639,051
Inventories	9,384,419
Prepaid expenses and other current assets	787,731
Total current assets	441,265,074
Noncurrent assets:	
Restricted:	
Cash and cash equivalents	52,137,290
Investments	68,058,347
Other receivables	7,523,336
Net pension asset	90,144,213
Prepaid insurance on debt	20,670,224
Capital assets:	
Assets not subject to depreciation	289,850,348
Assets subject to depreciation, net	2,548,144,492
Total capital assets, net	2,837,994,840
Total noncurrent assets	3,076,528,250
Total assets	\$ 3,517,793,324
Deferred outflows of resources	214,536,819

See accompanying notes to basic financial statements.

CITY OF DETROIT  
SEWAGE DISPOSAL FUND

Statement of Fund Net Position

June 30, 2014

Current liabilities:

Accounts and contracts payable	\$ 63,013,252
Accrued salaries and wages	620,423
Due to other funds	22,743,136
Due to fiduciary funds	1,365,525
Revenue bonds and state revolving loans	86,495,000
Pension obligation certificates of participation	2,041,421
Debt due to insurer subrogee	3,876,257
Other accrued liabilities	16,003,280
Accrued interest payable	71,473,338
Accrued other postemployment benefits	1,111,555
Accrued compensated absences	1,565,150
Accrued workers' compensation	507,000
Claims and judgments	1,527,458
Total current liabilities	<u>272,342,795</u>

Long-term liabilities:

Revenue bonds and state revolving loans, net	3,259,316,826
Pension obligation certificates of participation, net	83,802,009
Accrued other postemployment benefits	254,116
Accrued compensated absences	3,178,793
Accrued workers' compensation	3,185,000
Other accrued liabilities	15,217,513
Claims and judgments	1,177,500
Derivative instruments – swap liability	19,073,402
Total long-term liabilities	<u>3,385,205,159</u>

Total liabilities

3,657,547,954

Deferred inflows of resources

3,738,739

Fund net position:

Net investment in capital assets	22,834,100
Restricted:	
Restricted for capital acquisitions	44,123,303
Restricted for debt service	176,641,371
Unrestricted deficit	<u>(172,555,324)</u>
Total fund net position	<u>\$ 71,043,450</u>

See accompanying notes to basic financial statements.



CITY OF DETROIT  
SEWAGE DISPOSAL FUND

Statement of Revenues, Expenses, and Changes in Fund Net Position

Year ended June 30, 2014

Operating revenues:	
General customers	\$ 207,522,787
Suburban customers	257,264,293
City departments	569,361
Sewage surcharge	5,830,344
Miscellaneous	4,584,059
Total operating revenues	<u>475,770,844</u>
Operating expenses:	
Wastewater treatment plant	121,892,512
Pumping stations	10,847,365
Combined sewage overflow control basins	6,818,858
Interceptors	2,262,504
Sewer	11,816,146
Industrial waste control	3,759,584
Meters	16,977
Commercial	6,423,961
Administrative and general	42,213,604
Other items:	
Net OPEB obligation	1,121,642
Nonrecurring capital asset adjustment	21,996,104
Total operating expenses before depreciation	<u>229,169,257</u>
Depreciation	<u>118,409,025</u>
Total operating expenses	<u>347,578,282</u>
Operating income	<u>128,192,562</u>
Nonoperating revenues (expenses):	
Investment earnings (losses):	
Earnings on investment activity	2,832,781
Change in fair value of derivatives	(491,902)
Interest expense, net of capitalized interest	(135,145,219)
Amortization of bond issuance costs and deferrals	(13,963,557)
Miscellaneous expenses	(11,573,635)
Total nonoperating expenses net	<u>(158,341,532)</u>
Decrease in fund net position before special item	<u>(30,148,970)</u>
Special item – OPEB plan termination	<u>70,201,066</u>
Increase in fund net position	<u>40,052,096</u>
Fund net position – beginning of year, restated (See note 2(q))	<u>30,991,354</u>
Fund net position – end of year	<u>\$ 71,043,450</u>

See accompanying notes to basic financial statements.

CITY OF DETROIT  
SEWAGE DISPOSAL FUND

Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:	
Receipts from customers	\$ 475,207,954
Internal activity – payments to other funds	(21,977,299)
Payments to suppliers	(105,305,127)
Payments to employees	(64,948,994)
Net cash provided by operating activities	<u>282,976,534</u>
Cash flows from noncapital financing activities:	
Interest paid on pension obligation certificates of participation	(2,494,649)
Miscellaneous nonoperating expenses	(11,573,635)
Net cash used in noncapital financing activities	<u>(14,068,284)</u>
Cash flow from capital and related financing activities:	
Acquisition and construction of capital assets	(118,350,724)
Principal paid on revenue bonds and state revolving loans	(78,245,000)
Interest paid on revenue bonds and state revolving loans	(145,306,061)
Proceeds from issuance of state revolving loans	12,705,851
Net cash used in capital and related financing activities	<u>(329,195,934)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	84,773,753
Purchase of investments	(60,523,125)
Interest received on investments	1,135,070
Net cash provided by investing activities	<u>25,385,698</u>
Net decrease in cash and cash equivalents	<u>(34,901,986)</u>
Cash and cash equivalents at beginning of year, as adjusted	335,721,397
Cash and cash equivalents at end of year	<u>\$ 300,819,411</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	128,192,562
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	118,409,025
Nonrecurring capital asset adjustment	21,996,104
Loss on disposal of capital assets	10,573,894
Changes in assets and liabilities:	
Accounts receivable	(562,890)
Due from other funds	(7,435,471)
Inventories	378,384
Prepaid expenses	65,461
Net pension asset	(3,895,750)
Accounts and contracts payable	12,524,879
Accrued salaries and wages	17,703
Due to other funds	(14,541,828)
Due to fiduciary funds	1,136,329
Other accrued liabilities, accrued compensated absences, and accrued workers' compensation	12,481,532
Other postemployment benefits obligation	1,121,642
Claims and judgments payable	2,514,958
Net cash provided by operating activities	<u>\$ 282,976,534</u>
Noncash capital financing activities:	
Fair value of derivatives	\$ 491,902
Prior period adjustment	21,367,325
Special item – OPEB plan termination	<u>(70,201,066)</u>

See accompanying notes to basic financial statements.